

Atty Docket No.: 10407/640  
Serial No. 09/904,061

### REMARKS

1. Claims Rejections - 35 U.S.C. §101 – Claims 1-47

Claims 1-47 were rejected in the Office Action dated December 21, 2004, under 35 U.S.C. §101 for lack of patentable utility. Applicants respectfully traverse this rejection. Respectfully, this rejection seems to be a result of the Examiner's misunderstanding of the relevant federal law. Respectfully, the Examiner appears to be confusing the reporting requirement for the IRS W-2G form and the withholding requirement for the IRS W-2G form. Specifically, the relevant portions of the instructions for the IRS W-2G are reproduced below:

#### **Reportable Gambling Winnings**

Gambling winnings for these games (i.e., bingo, keno, and slot machines) are reportable if:

The winnings (reduced by the wager) are \$1,500 or more from a keno game.

The winnings (not reduced by the wager) are \$1,200 or more from a bingo game or slot machine.

If you pay reportable gambling winnings, you must file Form W-2G with the IRS and provide a statement to the winner (Copies B and C of Form W-2G).

#### **Withholding**

There are two types of withholding on gambling winnings: (1) regular gambling withholding at 25% (33.33% for certain non-cash payments) and (2) backup withholding at 28%. If a payment is already subject to regular gambling withholding, it is not subject to backup withholding.

#### **Regular Gambling Withholding**

Do not withhold at the 25% rate on winnings from bingo, keno, or slot machines or any other wagering transaction if the winnings are \$5,000 or less. However, see Backup Withholding below.

#### **Backup Withholding**

You may be required to withhold 28% of gambling winnings (including winnings from bingo, keno, and slot machines) for federal income tax. This is referred to as backup withholding. You should backup withhold at the 28% rate if:

- (1) The winner does not furnish a correct taxpayer identification number (TIN) and

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(2) 25% has not been withheld or the winnings are from bingo, keno, or slot machines.

See Attached Instructions for Form W-2G, pp. 1-2.

Therefore, in accordance with federal law, winnings (reduced by the wager) of \$1,500 or more from a keno game, and winnings (not reduced by the wager) are \$1,200 or more from a bingo game or slot machine, require the casino to report these gambling winning by filing Form W-2G. However, federal law does not require any withholding of these winnings provided that the winner furnishes a correct taxpayer identification number. Accordingly, it is a requirement of the claimed invention that the winner provide a correct taxpayer identification number. Accordingly, the claimed invention does not violate federal law by paying out winnings from bingo, keno, or slot machines over the threshold amount, provided that the player provide a taxpayer identification number.

In contrast, the Acres patent and the Bell patent, which are cited by the Examiner, actually enforce the withholding of winning over the threshold amount by preventing the payout of winnings to the player over the threshold amount, and withholding these funds for the casino to pay to the IRS. While this is an interesting idea, this type of withholding is not required by federal law, and is substantially divergent from that which is disclosed in the claimed invention. The methodologies of the Acres patent and the Bell patent not only have a profoundly different effect on the player, but they also put a greater (and unnecessary) burden on the casino to enforce withholdings on winnings upon which they are not required to collect. As such, the claimed invention is not only legal; it provides significant advantages over the cited references.

## 2. Response to Examiner's Arguments

Applicants have explained above in Section 1 that the claimed invention "enables paying out winnings over a threshold amount via a hopper pay-out to a United States-taxable player immediately after the player wins credits over the threshold amount." Both the Acres patent and the Bell patent prevent winnings over the threshold amount from being paid out to the player by implementing some form of withholding of winnings over the threshold amount. Thus, in

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contrast to both the Acres patent and the Bell patent, the claimed invention immediately pays out winnings over a threshold amount via a hopper pay-out to the player.

The Acres patent calculates the taxable withholding and subtracts that amount from reportable winnings to determine the "adjusted bonus amount" which is paid out to the player.

The Acres patent states:

If the bonus amount meets a pre-established threshold, currently set by IRS regulations as any award equal to or greater than \$1200, then the gaming machine is locked up until the actual awarded amount can be determined. If the player record is complete and the proper tax amount is included, then the bonus award can be adjusted and a withholding calculated to yield a reduced award amount. (*emphasis added*)

See Abstract.

The Bell patent checks to see whether the player winnings are over the taxable reporting amount (i.e., \$1,200.00). If the player winnings are over the taxable reporting amount, the winnings over the threshold are prevented from being paid out to the player. Instead, the winnings are transferred to an IRS reporting meter. The Bell patent states:

If the game results in a winning combination of symbols, the logic in the gaming device's microprocessor checks whether the dollar value of the payout is equal to or greater than the present IRS limit. If this is true 303, the number of credits corresponding to the payout amount is automatically transferred to the IRS win meter 304. ... If not, tokens will be paid out of the hopper 307. (*emphasis added*)

See Col. 4, lines 17-22.

At this juncture, a (non-limiting) numerical example of one embodiment may be clarifying. In one exemplary scenario, a player wins a \$2,000.00 award on a slot machine. In the claimed invention, awards over the threshold amount are tracked and paid out in full by occurrence, but are reported via a W-2G form at the end of the reduced interruption gaming session. Accordingly, all \$2,000.00 is immediately paid out to the player after the award.

In the Acres patent, awards over the threshold amount are not paid out in full. When the player wins a \$2,000.00 award on a slot machine, the machine calculates a withholding amount (i.e., 28% times \$2,000.00 equals \$560.00) and subtracts this withholding amount from the

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winnings to produce an adjusted bonus amount (i.e., \$2,000.00 minus \$560.00 equals \$1,440.00). Only this adjusted bonus amount of \$1,440.00 is paid out to the player.

In the Bell patent, awards over the threshold amount are not paid out in full. When the player wins a \$2,000.00 award on a slot machine, the machine withholds all winnings over the withholding amount (i.e., withholds \$800.00 of the \$2,000.00 that is over the \$1,200.00 reporting threshold). The \$800.00 is transferred to an IRS reporting meter and only \$1,200.00 is paid out to the player.

The Applicants hope that this example has been clarifying for the Examiner. Moreover, the Applicants have addressed the Examiner's specific comments regarding the cited references below.

#### The Acres '333 Patent

The Acres patent NEVER "enables paying out winnings over the threshold amount via a hopper pay-out to a United States-taxable player immediately after the player wins credits over the threshold amount" since the Acres patent withholds a portion of the winnings over the threshold amount (which are debited for taxes) before these winnings are ever seen by the player. Indeed, the Acres patent refers to this payout as the "adjusted bonus amount." See Col. 6, lines 29-38. Acres further clarifies at Col. 6, lines 37-38 that "*Adjusting for taxes yields a reduced amount.*"

#### A. Examiner's First Acres '333 Argument

The Examiner submits that Acres clearly indicates that there will be times where no money is withheld. Accordingly, the Examiner has relied on Acres, Col. 6, lines 59-63 that states, "[t]he payment amount is determined by the amount won and the withholding amount if any. If a withholding amount is specified, it is deducted from the amount to be paid." However, the withholding amount, as defined in the specification, is determined "by taking into account the bonus amount originally won and any applicable tax withholding prescribed by IRS regulations." See Col. 6, lines 35-38. Accordingly, in Acres there are times when no money is withheld, but those times are only when the players winnings are under the threshold amount. Therefore, the

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Acres example is NOT applicable to the claimed invention, which specifically relates to enabling pay-out to the player of all winnings over the threshold amount.

B. Examiner's Second Acres '333 Argument

The Examiner has also relied on Acres, Col. 6, lines 63-64 that states, "[i]n some cases, the protocol will not contain such a command" as support for his opinion that there are times discussed in Acres when no money is withheld. Such reliance is misplaced. This sentence refers to a command. By examining the context of the surrounding paragraph, the meaning of this sentence is revealed. See Col. 6, lines 56-66.

The MCI then sends a message to the game to add the appropriate number of credits to the game and clear the game for normal operation by sending the *appropriate command*. ... In some cases, the protocol will not contain *such a command*. In those situations, the MCI can include an electrical output device (not shown), typically an electromechanical relay, that is connected across the game reset switch. This contact closure simulates the turning of the keyswitch by a person and causes the game to be cleared again for normal operation. (Emphasis added).

Thus, what this section actually states is that either "an appropriate command" or "an electro-mechanical relay" is used to reset the game to normal operation after it has "locked-up" for a payout. Clearly, if a gaming machine "locks-up" to make a payout, then the invention is not "allowing a player to participate in a reduced interruption gaming session when a jackpot over a threshold amount is won," as is required by the claimed invention. Such a lock-up is an extended interception of the game session.

C. Examiner's Third Acres '333 Argument

Further, the Examiner has relied on Acres, Col. 6, line 50 that states, "Immediately approve the award and make payment" to support his opinion that winnings are paid immediately. Once again, such reliance is misplaced. By examining the context of the preceding sentences, the meaning of this sentence is revealed. See Col. 6, lines 40-50.

In the preferred embodiment of the invention, *this reduced amount is awarded directly at the machine* (step 85) in a manner similar to regular bonus awards--e.g.

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applied directly to the gaming machines credit meter, to a central player account, or paid directly to the hopper. Upon receipt of the authorization signal, the game is reset and play can continue in the normal manner (step 100). *Once the amount to be paid is determined*, the casino can program the system, in accordance with IRS requirements, to take one of several actions: 1. Immediately approve the award and make payment: (Emphasis added).

Thus, what these sentences actually declare is that, in one embodiment, the reduced amount is immediately approved and awarded directly at the machine, once that reduced amount to be paid has been determined. Accordingly, the "immediate" payout that is referred to by the Examiner is clearly "a reduced payout," as are all payouts in the Acres invention that relate to winnings over a threshold amount. Obviously, a reduced payout (i.e., amount to be paid) can only be awarded after the tax withholding amount is generated. Therefore, there are no immediate payouts of all winnings over the threshold amount from the Acres device. Once again, the Acres device is not applicable to the claimed invention, which specifically relates to enabling immediate pay-out to the player of all winnings over the threshold amount.

#### The Bell '461 Patent

Again, the claimed invention enables a player to participate in a reduced interruption gaming session by:

(1) enabling paying out winnings over the threshold amount via a hopper pay-out to a United States-taxable player immediately after the player wins credits over the threshold amount, and

(2) enabling the player to continue the reduced interruption gaming session, as desired.

#### A. Examiner's First Bell '461 Argument

The Examiner has submits that the Bell '461 patent teaches ensuring that a player continuously maintains access to all winnings, including all winnings over the threshold amount. The Examiner has further stated that the Bell '461 patent teaches that the winnings over the threshold amount are transferred to the IRS meter where the player may use them to make additional wagers. The relevant section of the Bell '461 patent Col. 3, lines 38-43 states:

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This method guarantees that all winnings that are reportable to the IRS are automatically placed on the IRS reporting credit meter 204 for later use in preparing the W2-G Form. The player then places a bet 207 which amount is deducted from the IRS reportable credit meter 204.

Thus, all winnings over the threshold amount are placed on an IRS reporting credit meter. Importantly, while the Examiner is correct that the player has access to the winnings on the IRS reporting credit meter for placing bets, the player DOES NOT have access to the winnings on the IRS reporting credit meter for immediate cash out. In order to cash out, a player must go through the following procedure, described at Col. 4, lines 45-63:

When the player chooses to stop playing, the following events will happen:

1. Either an attendant will access the IRS win meter 304 and prepare a W2-G Form 312 for the balance of the meter. At 313 on the diagram, a manual key would be used to reset the IRS win meter 304 and make the total credit display 309 balance available for payment to the player; or
2. A print out 318 corresponding to the amount of winnings stored in the IRS win meter 304 is automatically printed directly onto a W2-G Form including all of the required information of the player, thereby eliminating any manual preparation of the W2-G Form. The printout 318 is either printed at the slot machine or some other convenient location and the IRS win meter 308 is either reset automatically or manually as described above; and
3. The player can then cash out 314 through a hopper pay 315 through a handpay 317 or by whatever other means may be provided 316.

Thus, in the Bell '461 patent, **before a player can cash out** either (1) an attendant will access the IRS win meter, prepare a W2-G Form for the balance of the meter, and use a key to reset the IRS win meter, or (2) a print out corresponding to the amount of winnings stored in the IRS win meter will be printed onto a W2-G Form and the IRS win meter will be reset. Accordingly, a player operating under the Bell '461 patent does NOT have continuous access to the winnings on the IRS reporting credit meter for immediate cash out, as required by the claimed invention. Clearly, the Bell '461 patent teaches away from the claimed invention. Furthermore, the claimed invention also explicitly requires "enabling paying out winnings over the threshold amount via a hopper pay-out to the United States-taxable player immediately after the player wins credits over the threshold amount." This is in furtherance of the claimed

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invention's primary goal, to reduce (or ideally eliminate) interruptions in a gaming session. In stark contrast, it is abundantly clear from Col. 4, lines 45-63 quoted above, that the jackpot-related information statement must be generated, either by an attendant or by an automated printer, before a pay-out can occur. This is the opposite of that which is taught by the claimed invention.

B. Examiner's Second Bell '461 Argument

The Examiner also argues that the Bell '461 patent teaches recording the nationality of a player so that money will not be withheld in cases where IRS rules do not apply. Continuing, the Examiner further stated that if no taxes are withheld then no reduction is made to the winnings, and the player receives all winnings over the threshold amount. While the Examiner is correct that the Bell patent does not produce a "reduced payout amount," as is done in the Acres patent, the nationality provision of the Bell patent creates a situation where no IRS statement is generated. This is contrary to the claimed invention, which "enables paying out winnings over the threshold amount via a hopper pay-out to the United States-taxable player immediately after the player wins credits over the threshold amount."

C. Examiner's Third Bell '461 Argument

While the Examiner admits that the Bell patent "fails to teach enabling the payout before the jackpot related information is generated," the Examiner has looked to Acres for support. In this regard, the Examiner has once again relied on Col. 6, line 50 that states, "Immediately approve the award and make payment" for support. As explained above, such reliance is misplaced. By examining the context of the preceding sentences, the meaning of this sentence is revealed. See Col. 6, lines 40-50.

*In the preferred embodiment of the invention, this reduced amount is awarded directly at the machine (step 85) in a manner similar to regular bonus awards--e.g. applied directly to the gaming machines credit meter, to a central player account, or paid directly to the hopper. Upon receipt of the authorization signal, the game is reset and play can continue in the normal manner (step 100). Once the amount to be paid is determined, the casino can program the system, in accordance with*



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IRS requirements, to take one of several actions: 1. Immediately approve the award and make payment: (Emphasis added).

Thus, what these sentences actually declare is that, in one embodiment, the reduced amount is immediately approved and awarded directly at the machine, once that reduced amount to be paid has been determined. Accordingly, the "immediate" payout that is referred to by the Examiner is clearly "a reduced payout," as are all payouts in the Acres invention that relate to winnings over a threshold amount. Obviously, a reduced payout (i.e., amount to be paid) can only be awarded after the tax withholding amount is generated. Therefore, there are no immediate payouts of all winnings over the threshold amount from the Acres device. As such, the Acres device is NOT applicable to the claimed invention, which specifically relates to "enabling paying out winnings over the threshold amount via a hopper pay-out to the United States-taxable player immediately after the player wins credits over the threshold amount."

3. Claims Rejections - 35 U.S.C. §102(e) – Claims 11-19, 22-25, 27-33, 35-44, and 47

Claims 11-19, 22-25, 27-33, 35-44, and 47 were rejected in the Office Action dated December 21, 2004, under 35 U.S.C. §102(e) as being anticipated by Acres (U.S. Patent No. 6,312,333). Applicants respectfully traverse this rejection. However, in order to provide clarification only, claims 11, 23, 24, 27, 29, and 36 have been amended. Claims 11, 23, 24, 29, and 36 are independent claims. Claims 12-19 and 22 depend from independent claim 11; claims 25 and 27-28 depend from independent claim 24; claims 30-33 and 35 depend from independent claim 29; and claims 37-44 and 47 depend from independent claim 36. For brevity, only the bases for the rejection of the independent claims are traversed in detail on the understanding that the dependent claims are also patentably distinct over the cited references as they depend directly from their respective independent claim. Nevertheless, the dependent claims include additional features that, in combination with those of the independent claims, provide further, separate, and independent bases for patentability.

The Examiner has taken the position that the Acres patent anticipates the invention of claims 11-19, 22-25, 27-33, 35-44, and 47 (i.e., includes each and every element of claims 11-19, 22-25, 27-33, 35-44, and 47). The claimed invention, as amended, "enables paying out winnings

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over the threshold amount via a hopper pay-out to a United States-taxable player immediately after the player wins credits over the threshold amount.”

In contrast, the Acres patent discloses a gaming machine that accepts bets from a player and provides a payout in response to a winning bet only if it is under a payout threshold amount. Importantly, the Acres patent (1) intentionally locks-up the gaming machine if the payout is over a pre-established threshold, (2) performs a calculation based upon the amount of payout over the pre-established threshold, and (3) reduces the amount of the payout over the threshold (i.e., it withholds a percentage of the winnings over the threshold amount for taxes), before unlocking the gaming machine after the reduced payout has been authorized. Accordingly, the Acres gaming machine *actually reduces the amount of the payout over a specified threshold by withholding a percentage of the winnings over the threshold amount for tax payment*. Thus, the Acres gaming machine does NOT “enabling paying out winnings over the threshold amount via a hopper pay-out to the United States-taxable player immediately after the player wins credits over the threshold amount,” as required by the claimed invention. Indeed, the Acres gaming machine NEVER pays-out all winnings over the threshold amount during the reduced interruption gaming session since the Acres gaming machine *actually decreases the winnings over the threshold amount to enforce taxation of winnings before they even reach the player’s hands*. Furthermore, this immediate taxation enforcement of winnings over a threshold amount is an action that many patrons may find highly objectionable and annoying.

Additionally, the Examiner has stated that in cases where the player already has the necessary information on file, the Acres patent will “immediately approve the award and make payment,” and thus, no delay is encountered. The Examiner has quoted from Acres, Col. 6, line 50, as support for his position that no delay is encountered with the Acres gaming machine. However, the Examiner has not mentioned the preceding sentence that states: “Once the amount to be paid is determined, the casino can program the system, in accordance with IRS requirements, to take one of several actions.” (Emphasis added). Accordingly, as Col. 6, lines 13-46 of the Acres patent are examined, it becomes clear that Acres (1) *intentionally locks-up the gaming machine* if the payout is over a pre-established threshold, (2) performs a calculation

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based upon the amount of payout over the pre-established threshold, and (3) reduces the amount of the payout over the threshold, before unlocking the gaming machine after the reduced payout has been authorized. Only after these events occur, can the Acres patent "approve the award and make payment." Thus, the Acres gaming machine NEVER pays-out "winnings over the threshold amount via a hopper pay-out to the United States-taxable player immediately after the player wins credits over the threshold amount." Accordingly, only a portion of the award over the pre-established threshold is paid out, and even that reduced payment is far from immediate.

In conclusion, the Acres patent does not teach or suggest each and every element of the claimed invention, and is in fact incongruous with the claimed invention. The Acres patent discloses a system that is directly at odds with the claimed invention, and accordingly, actually teaches away from the claimed invention. Accordingly, Applicants respectfully submit that the 35 U.S.C. § 102(e) rejection of claims 11-19, 22-25, 27-33, 35-44, and 47 as unpatentable over Acres has been overcome.

4. Claims Rejections - 35 U.S.C. §103(a) – Claims 1, 2, and 4-10

Claims 1, 2, and 4-10 were rejected in the Office Action dated December 21, 2004, under 35 U.S.C. § 103(a) as being anticipated by Bell et al. (U.S. Patent No. 5,505,461). Applicants respectfully traverse this rejection. However, in order to provide clarification only, claims 1 and 4 have been amended. Claim 1 is an independent claim. Claims 2 and 4-10 depend from independent claim 1. The basis for the rejection of the independent claim is traversed in detail on the understanding that dependent claims are also patentably distinct over the cited references as they depend directly from independent claim 1. Nevertheless, the dependent claims include additional features that, in combination with those of the independent claims, provide further, separate, and independent bases for patentability.

The Examiner has taken the position that the Bell patent anticipates the invention of claims 1, 2, and 4-10 (i.e., includes each and every element of claims 1, 2, and 4-10). The claimed invention, as amended, requires "enabling paying out winnings over the threshold amount via a

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hopper pay-out to the United States-taxable player immediately after the player wins credits over the threshold amount.”

In contrast, the Bell patent discloses a gaming machine that does NOT provide a payout in response to a winning bet that is over the payout threshold amount, but rather transfers this non-received payout into a credit on an IRS reportable credit meter where the non-received payout is stored. Accordingly, the Bell patent does NOT “enable paying out winnings over the threshold amount via a hopper pay-out to the United States-taxable player immediately after the player wins credits over the threshold amount,” as required by the claimed invention. Instead, the Bell patent prevents the payout of this credit until after a tax form has been produced. Thus, the Bell gaming machine does NOT ensure that the player is able to receives pay out winnings over the threshold amount via a hopper pay-out immediately after the player wins credits over the threshold amount, as required by the claimed invention.

Indeed, claim 1 of the Bell patent includes the claim element “means for preventing payout of said credit in said IRS credit storage means by said player.” Thus, the Bell patent teaches directly away from the claimed invention. Furthermore, the claimed invention also recites that the IRS reporting statement (i.e., statement referencing the recorded jackpot-related information and stored player-related information) be generated after the reduced interruption gaming session is terminated. The Bell patent requires just the opposite, that the gaming session must be ended and the IRS reporting statement generated (either printed or filled out by an attendant) before the player can be cashed out.

In conclusion, the Bell patent does not teach or suggest each and every element of the claimed invention, and is in fact incongruous with the claimed invention. Indeed the Bell patent, while dealing with related issues, discloses a system that is directly at odds with the claimed invention, and thus, actually teaches away from the claimed invention. Accordingly, Applicants respectfully submit that the 35 U.S.C. § 103(a) rejection of claims 1, 2, and 4-10 as unpatentable over Bell has been overcome.

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5. Claims Rejections - 35 U.S.C. §103(a) – Claim 3

Claim 3 was rejected in the Office Action dated December 21, 2004, under 35 U.S.C. § 103(a) as being unpatentable in view of Bell et al., and further in view of Bergeron et al. (U.S. Patent No. 4,882,473) and Pease et al. (U.S. Patent No. 5,326,104). Applicants respectfully traverse this rejection. However, in order to provide clarification only, claims 1 and 3 have been amended. Claim 1 is an independent claim. Claim 3 depends from independent claim 1. For brevity, only the bases for the rejection of the independent claim 1 are traversed in detail on the understanding that dependent claim 3 is also patentably distinct over the cited references as it depends directly from independent claim 1. Nevertheless, the dependent claim 3 includes additional features that, in combination with those of independent claim 1, provide further, separate, and independent bases for patentability.

The Examiner states that the Bell patent teaches the invention substantially as claimed, but does not teach inserting an agent card or selecting uninterrupted play from a menu. The Examiner further states that Bergeron teaches insertion of an agent card for the purpose of enhancing security, and that Pease teaches a menu-driven system. The shortcomings of the Bell patent are well documented in Section 4 above. Neither the Bergeron patent nor the Pease patent satisfy these shortcomings.

The Bell, Bergeron, and Pease patents do not teach or suggest each and every element of the claimed invention. Indeed the Bell patent, while dealing with related issues, discloses a system that is directly at odds with the claimed invention, and thus, actually teaches away from the claimed invention. Accordingly, Applicants respectfully submit that the 35 U.S.C. § 103(a) rejection of claim 3 as unpatentable has been overcome.

6. Claims Rejections - 35 U.S.C. §103(a) – Claims 20, 21, 26, 34, 45, and 46

Claims 20, 21, 26, 34, 45, 46, and 48-50 were rejected in the Office Action dated December 21, 2004, under 35 U.S.C. § 103(a) as being unpatentable in view of Acres (U.S. Patent No. 6,312,333), and further in view of Bergeron et al. (U.S. Patent No. 4,882,473) and Pease et al. (U.S. Patent No. 5,326,104). Applicants respectfully traverse this rejection.

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However, in order to provide clarification only, claims 11, 24, 26, 29, and 36 have been amended. Claims 48-50 have been canceled. Claims 11, 23, 24, 29, and 36 are independent claims. Claims 20 and 21 depend from independent claim 11; claim 26 depends from independent claim 24; claim 34 depends from independent claim 29; and claims 45 and 46 depend from independent claim 36. For brevity, only the bases for the rejection of the independent claims are traversed in detail on the understanding that dependent claims are also patentably distinct over the cited references as they depend directly from their respective independent claims. Nevertheless, the dependent claims include additional features that, in combination with those of the independent claims, provide further, separate, and independent bases for patentability.

The Examiner states that the Acres patent teaches the invention substantially as claimed, but does not teach inserting an agent card or selecting uninterrupted play from a menu. The Examiner further states that Bergeron teaches insertion of an agent card for the purpose of enhancing security, and that Pease teaches a menu-driven system. The shortcomings of the Acres patent are well documented in Section 3 above. Neither the Bergeron patent nor the Pease patent satisfy these shortcomings.

In conclusion, the Acres, Bergeron, and Pease patents do not teach or suggest each and every element of the claimed invention. The Acres patent discloses a system that is directly at odds with the claimed invention, and accordingly, actually teaches away from the claimed invention. Accordingly, Applicants respectfully submit that the 35 U.S.C. § 103(a) rejection of claims 20, 21, 26, 34, 45, and 46 as unpatentable has been overcome.

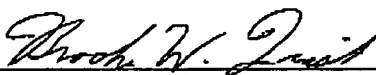
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CONCLUSION

Applicants have made an earnest and bona fide effort to clarify the issues before the Examiner and to place this case in condition for allowance. In view of the foregoing discussions, it is clear that the differences between the claimed invention and the cited references are such that the claimed invention is patentably distinct over the cited references. Therefore, reconsideration and allowance of claims 1-47 is believed to be in order, and an early Notice of Allowance to this effect is respectfully requested. If the Examiner should have any questions concerning the foregoing, the Examiner is invited to telephone the undersigned attorney at (310) 712-8319. The undersigned attorney can normally be reached Monday through Friday from about 9:30 AM to 6:30 PM Pacific Time.

Respectfully submitted,

Dated: 4/21/05

  
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DEPARTMENT OF THE TREASURY

**Instructions for Forms W-2G and 5754 - Main Contents****Table of Contents**

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- Specific Instructions for Form 5754
  - o Withholding and Forms W-2G for Multiple Winners

**Specific Instructions for Form W-2G**

File Form W-2G, Certain Gambling Winnings, to report gambling winnings and any federal income tax withheld on those winnings. The requirements for reporting and withholding depend on the type of gambling, the amount of the gambling winnings, and generally the ratio of the winnings to the wager.

The types of gambling are discussed in these instructions under the following three headings:

1. Horse Racing, Dog Racing, Jai Alai, and Other Wagering Transactions Not Discussed Later
2. Sweepstakes, Wagering Pools, and Lotteries
3. Bingo, Keno, and Slot Machines

***Tax-Exempt Organizations***

A tax-exempt organization conducting gaming activities may be required to withhold income tax and report on Form W-2G. See Pub. 3079, Gaming Publication for Tax-Exempt Organizations.

***Reportable Gambling Winnings***

Generally, gambling winnings are reportable if the amount paid reduced, at the option of the payer, by the wager is (a) \$600 or more and (b) at least 300 times the amount of the wager. However, these requirements do not apply to winnings from bingo, keno, and slot machines. Gambling winnings for these games are reportable if:

- The winnings (reduced by the wager) are \$1,500 or more from a keno game.
- The winnings (not reduced by the wager) are \$1,200 or more from a bingo game or slot machine.



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If you pay reportable gambling winnings, you must file Form W-2G with the IRS and provide a statement to the winner (Copies B and C of Form W-2G).

**Withholding**

There are two types of withholding on gambling winnings: (1) regular gambling withholding at 25% (33.33% for certain noncash payments) and (2) backup withholding at 28%. If a payment is already subject to regular gambling withholding, it is not subject to backup withholding.

**Regular Gambling Withholding**

You may be required to withhold 25% of gambling winnings for federal income tax. This is referred to as regular gambling withholding. Withhold at the 25% rate if the winnings are more than \$5,000 and are from:

- Sweepstakes,
- Wagering pools,
- Lotteries, and
- Other wagering transactions if the winnings are at least 300 times the amount wagered.

Do not withhold at the 25% rate on winnings from bingo, keno, or slot machines or any other wagering transaction if the winnings are \$5,000 or less. However, see *Backup Withholding* below.

Regular gambling withholding applies to the total amount of gross proceeds (the amount of winnings less the amount wagered), not merely to the amount in excess of \$5,000.

Report the amount you withheld in box 2 of Form W-2G. Also file Form 945, Annual Return of Withheld Federal Income Tax, to report all your gambling withholding.

**Noncash payments.** A noncash payment, such as a car, must be taken into account at its fair market value (FMV) for purposes of reporting and withholding. If the FMV exceeds \$5,000, after deducting the price of the wager, the winnings are subject to 25% regular gambling withholding. The tax you must withhold is computed and paid under either of the following two methods:

1. The winner pays the withholding tax to the payer. In this case, the withholding is 25% of the FMV of the noncash payment minus the amount of the wager.
2. The payer pays the withholding tax. In this case, the withholding is 33.33% of the FMV of the noncash payment minus the amount of the wager.

If you use method 2, enter the sum of the noncash payment and the withholding tax in box 1 of Form W-2G and the withholding tax paid by the payer in box 2.

**Backup Withholding**

You may be required to withhold 28% of gambling winnings (including winnings from bingo, keno, and slot machines) for federal income tax. This is referred to as backup withholding. You should backup withhold at the 28% rate if:

- The winner does not furnish a correct taxpayer identification number (TIN)

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and

- 25% has not been withheld or the winnings are from bingo, keno, or slot machines.

Backup withholding applies to the total amount of the winnings reduced, at the option of the payer, by the amount wagered. This means the total amount, not just the payments in excess of \$600, \$1,200, or \$1,500, is subject to backup withholding at 28%.

Report the amount you withheld in box 2 of Form W-2G. Also file Form 945 to report all backup withholding. You may use Form W-9, Request for Taxpayer Identification Number and Certification, to request the TIN of the recipient.

See the instructions on the following pages for each type of gambling for detailed rules on backup withholding.

**Foreign Persons**

Payments of gambling winnings to a nonresident alien individual or a foreign entity are not subject to reporting or withholding on Form W-2G. Generally, gambling winnings paid to a foreign person are subject to 30% withholding under sections 1441 (a) and 1442(a) and are reportable on Form 1042, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons, and Form 1042-S, Foreign Person's U.S. Source Income Subject to Withholding. Winnings of a nonresident alien from blackjack, baccarat, craps, roulette, or big-6 wheel are not subject to withholding or reporting. See Pub. 515, Withholding of Tax on Nonresident Aliens and Foreign Entities.

**State Tax Information**

If state income tax withholding is required on gambling winnings in your state, you may want to complete boxes 13 and 14 on Form W-2G. Copy 1 of the form may be used to provide information to the state, and Copy 2 may be used as the winner's copy for use in filing a state income tax return. A state identification number is assigned by each individual state.

**Form 5754**

If the person receiving the winnings is not the actual winner, or is a member of a group of winners, see *Specific Instructions for Form 5754* on page W-4.

**Statements to Winners**

If you are required to file Form W-2G, you must also provide a statement to the winner. For information about the requirement to furnish a statement to the winner, see part H in the 2005 General Instructions for Forms 1099, 1098, 5498, and W-2G. You may furnish Copies B and C of Form W-2G.

**1. Horse Racing, Dog Racing, Jai Alai, and Other Wagering Transactions Not Discussed Later**

File Form W-2G for every person to whom you pay \$600 or more in gambling winnings if such winnings are at least 300 times the amount of the wager. If the person presenting the ticket for payment is the sole owner of the ticket, complete Form W-2G showing the name, address, and TIN of the winner. If regular gambling withholding is required, the winner must sign Form W-2G, under penalties of perjury, stating that he or she is the sole owner and that the information listed on the form is correct.

## Instructions for Forms W-2G and 5754 (2005)

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**Withholding**

You must withhold federal income tax, at the rate of 25% (regular gambling withholding), from the amount of winnings less the amount wagered. Do this if the winnings less the wager exceed \$5,000 and if the winnings are at least 300 times the amount of the wager.

If the winner of reportable gambling winnings does not provide a TIN, you must backup withhold at the rate of 28% on any such winnings that are not subject to 25% regular gambling withholding. That is, backup withholding applies if the winnings are at least \$600 but not more than \$5,000 and are at least 300 times the wager. Figure the 28% backup withholding on the amount of the winnings reduced, at the option of the payer, by the amount wagered.

**Multiple Wagers**

For multiple wagers sold on one ticket, such as the \$12 box bet on a Big Triple or Trifecta, the wager is considered as six \$2 bets and not one \$12 bet for purposes of computing the amount to be reported or withheld. Winnings on a \$12 box bet must be reported if they are \$600 or more, and federal income tax must be withheld if the proceeds total more than \$5,000 or, if the proceeds do not exceed \$5,000, if the recipient fails to provide a TIN.

**Identical Wagers**

Winnings from identical wagers (e.g., two \$2 bets on a particular horse to win the same race) are added together for purposes of the reporting and withholding requirements. Also, winnings from identical wagers that are not part of the payment for which the Form W-2G is being prepared are added together for purposes of withholding to determine if the total amount of proceeds from identical wagers is more than \$5,000.

**Box 1**

Enter payments of \$600 or more if the payment is at least 300 times the amount of the wager.

**Box 2**

Enter any federal income tax withheld, whether 25% regular gambling withholding or 28% backup withholding.

**Box 3**

Enter the type of wager if other than a regular race bet, for example, Daily Double or Big Triple.

**Box 4**

Enter the date of the winning event. This is not the date the money was paid if it was paid after the date of the race (or game).

**Box 5**

Not applicable.

**Box 6**

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Enter the race (or game) applicable to the winning ticket.

**Box 7**

Enter the amount of additional winnings from identical wagers.

**Box 8 or 10**

Enter the cashier and/or window number making the winning payment.

**Boxes 11 and 12**

Enter the identification numbers of the person receiving the winnings. Identification from a driver's license, social security card, or voter registration may be furnished by the person receiving the winnings.

**Box 13 (optional)**

Enter the abbreviated name of the state and your state identification number.

**Box 14 (optional)**

Enter the amount of state income tax withheld.

**2. Sweepstakes, Wagering Pools, and Lotteries**

File Form W-2G for each person to whom you pay \$600 or more in gambling winnings from a sweepstakes, wagering pool, or lottery (including a state-conducted lottery) if the winnings are at least 300 times the amount of the wager. The wager must be subtracted from the total winnings to determine whether withholding is required and, at the option of the payer, to determine whether reporting is required. The wager must be subtracted at the time of the first payment.

The requirements in this section apply to church raffles, charity drawings, etc. In the case of one wager for multiple raffle tickets, such as five for \$1, the wager is considered as \$.20 for each ticket.

**Withholding**

You must withhold federal income tax, at the rate of 25% (regular gambling withholding), from the amount of winnings less the amount wagered if the winnings less the wager exceed \$5,000. If the winner of reportable gambling winnings does not provide a TIN, you must backup withhold at the rate of 28% on any such winnings that are not subject to 25% regular gambling withholding. That is, backup withholding applies if the winnings are at least \$600 but not more than \$5,000 and are at least 300 times the wager. Figure the 28% backup withholding on the amount of the winnings reduced, at the option of the payer, by the amount wagered.

Installment payments of \$5,000 or less are subject to 25% regular gambling withholding if the total proceeds from the wager will exceed \$5,000.

If payments are to be made for the life of a person (or for the lives of more than one person), and it is actuarially determined that the total proceeds from the wager are expected to exceed \$5,000, such payments are subject to 25% regular gambling withholding. When a third party makes the payments, for example, an insurance company handling the winnings as an annuity, that third party must withhold.

**When Paid**

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A payment of winnings is considered made when it is paid, either actually or constructively, to the winner. Winnings are constructively paid when they are credited to, or set apart for, that person without any substantial limitation or restriction on the time, manner, or condition of payment. However, if not later than 60 days after the winner becomes entitled to the prize, the winner chooses the option of a lump sum or an annuity payable over at least 10 years, the payment of winnings is considered made when actually paid. If the winner chooses an annuity, file Form W-2G each year to report the annuity paid during that year.

**Box 1**

Enter payments of \$600 or more if the payment is at least 300 times the amount of the wager.

**Box 2**

Enter any federal income tax withheld, whether 25% regular gambling withholding or 28% backup withholding.

**Box 3**

Enter the type of wager (such as raffle or 50-50 drawing) or the name of the lottery (such as Instant, Big 50, Baker's Dozen, or Powerball) and the price of the wager (\$.50, \$1, etc.).

**Box 4**

Enter the date of the winning transaction, such as the date of the drawing of the winning number. This might not be the date the winnings are paid.

**Box 5**

For a state lottery, enter the ticket number or other identifying number.

**Boxes 6 Through 8 and 10**

Not applicable.

**Boxes 11 and 12**

For other than state lotteries, enter the identification numbers of the person receiving the winnings. Identification from a driver's license, social security card, or voter registration may be furnished by the person receiving the winnings.

**Box 13 (optional)**

Enter the abbreviated name of the state and your state identification number.

**Box 14 (optional)**

Enter the amount of state income tax withheld.

**3. Bingo, Keno, and Slot Machines**

File Form W-2G for every person to whom you pay \$1,200 or more in gambling winnings from bingo or slot machines, or \$1,500 or more from keno after the price of

## Instructions for Forms W-2G and 5754 (2005)

the wager for the winning keno game is deducted. If the winnings are not paid in cash, the FMV of the item won is considered the amount of the winnings. Total all winnings from each bingo or keno game. Winnings and losses from other wagering transactions are not to be taken into account in arriving at the \$1,200 or \$1,500 figure.

**Withholding**

Regular gambling withholding (25%) does not apply to winnings from bingo, keno, or slot machines. However, if the recipient of reportable gambling winnings from bingo, keno, or slot machines does not provide a TIN, you must backup withhold at the rate of 28%. That is, if the winnings are at least \$1,200 from bingo or slot machines or \$1,500 from keno, 28% backup withholding applies to the amount of the winnings reduced, at the option of the payer, by the amount wagered.

**Box 1**

Enter payments of \$1,200 or more from bingo or slot machines or payments of \$1,500 or more from keno.

**Box 2**

Enter any 28% backup withholding.

**Box 3**

Enter the type of wager (i.e., bingo, keno, or slot machines) and the amount of the wager.

**Box 4**

Enter the date of the winning transaction.

**Box 5**

Enter the ticket number, card number (and color, if applicable), machine serial number, or any other information that will help identify the winning transaction.

**Boxes 6 and 7**

Not applicable.

**Box 8**

Enter the initials of the person paying the winnings.

**Box 10**

Enter the location of the person paying the winnings, if applicable.

**Boxes 11 and 12**

Enter the identification numbers of the person receiving the winnings. Identification from a driver's license, social security card, or voter registration may be furnished by the person receiving the winnings.

**Box 13 (optional)**

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Enter the abbreviated name of the state and your state identification number.

**Box 14 (optional)**

Enter the amount of state income tax withheld.

**Specific Instructions for Form 5754**

Use Form 5754, Statement by Person(s) Receiving Gambling Winnings, only to prepare Form W-2G when the person receiving gambling winnings subject to reporting or withholding is not the actual winner or is a member of a group of two or more winners on the same winning ticket. The payer is required to file Forms W-2G based on Form 5754.

The person receiving the winnings must furnish all the information required by Form 5754. However, a recipient of winnings from a state-conducted lottery need not provide identification other than his or her taxpayer identification number (TIN).

Part I lists the identification of the person to whom the winnings are paid, and Part II lists the actual winners, their respective shares of the winnings, and any additional winnings from identical wagers.

In Part II, the person receiving the winnings must provide the name, address, TIN, respective share of the winnings, and additional winnings from identical wagers for each of the winners. In addition, if regular gambling withholding is required, the form must be signed, under penalties of perjury, and dated by the person receiving the winnings.

The form must be returned to the payer for preparation of Form W-2G for each of the persons listed as winners. Forms W-2G may be issued immediately or by January 31 following the year of the payment.

Do not send Form 5754 to the IRS. Keep it for your records.

***Withholding and Forms W-2G for Multiple Winners***

If more than one person shares in the winnings from a single wager, the total amount of the winnings (less the amount wagered) will determine the amount of the proceeds for purposes of reporting and withholding. Do not allocate winnings to each winner before determining whether the withholding or reporting thresholds were reached.

For example, E purchases a sweepstakes ticket for \$1 on behalf of himself and S, who contributes an equal amount of the ticket price and who will share equally in any winnings. The ticket wins \$5,002. Because the winnings (\$5,002 - \$1 = \$5,001) are more than \$5,000, you must withhold 25% of \$5,001. You must prepare a separate Form W-2G for E and for S using the information furnished to you on Form 5754.

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